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SUBJECT: The "Visible" Hand: Nicaraguan Exports to Venezuela

1. (SBU) Summary. Since Nicaragua joined the Bolivarian Alliance for the Americas (ALBA), exports to Venezuela have increased from \$2 million for all of 2006 to \$102 million for just the first ten months of 2009. Among the leading exports are live cattle and beef cuts, dairy products, and black beans. Farmers and ranchers report that only those cooperatives vetted by a Citizen Power Council (CPC) are allowed to sell to Venezuela; they often receive concessional financing as well. Venezuela does offer some opportunities for the export of Nicaraguan agricultural products, but government incentives and partisan politics have played an important role in making sure that "fair trade" produces results. End summary.

2. (U) Since Nicaragua joined ALBA in January 2007, exports to Venezuela have increased sharply. In 2006, Nicaraguan exports to Venezuela totaled only \$2 million for the year, according to data compiled by the Center for Export Transactions (CETREX). In 2008, exports reached \$32.7 million. During the first ten months of 2009, CETREX reports that they have already exceeded \$102 million, making Venezuela the third largest market for Nicaraguan exports after the United States and El Salvador. On November 5, Elias Jaua, Venezuelan Minister of Agriculture and Venezuelan Lands, announced during a visit to Nicaragua that "Nicaragua has become a reliable source for meat, milk, and black beans, which are the foundation of the Venezuelan diet."

3. (U) Among the leading exports are live cattle and chilled/frozen beef cuts. During the first seven months of 2009, Nicaragua shipped \$4.3 million worth of live cattle to Venezuela. During the same period, exports of chilled/frozen beef cuts totaled \$35.5 million. Pedro Haslam, Executive Director of the government's Nicaraguan Institute for Cooperative Development (INFOCOOP), estimates that in 2009, cattle exports will reach \$12 million and beef exports, \$64 million.

4. (SBU) Privately-owned slaughter houses currently process beef for export to Venezuela. However, Rafael Paniagua, General Manager of ALBA de Nicaragua S.A. (ALBANISA), the Venezuelan - Nicaraguan joint venture that manages the proceeds of Venezuelan oil sales, announced on October 23 that the conglomerate would construct two facilities in Nicaragua for beef processing. Ranchers have told Emboffs that Venezuelan buyers periodically travel through the countryside offering to buy live cattle for top dollar. They report that only those who belong to a Citizen Power Committee (CPC) - a partisan mechanism for local governance controlled by

First Lady Rosario Murillo - are offered financing to replenish their herds and continue selling to Venezuela.

15. (U) Milk, both fresh and ultra pasteurized, is Nicaragua's second leading export to Venezuela. Exports totaled \$3 million in 2008 according to CETREX. During the first seven months of 2009, milk exports reached \$5.8 million, and INFOCOOP's Haslam estimates they will reach \$14 million by year end. Black beans, the third-leading export, totaled \$4.1 million in 2008, but are only \$1.1 million so far this year. Haslam forecasts black bean exports of \$5.5 million for the year. He also forecasts exports of rice, a grain of which Nicaragua is an importer (\$92 million worth in 2008), to total \$7 million this year.

16. (U) Roger Ali Romero, an ALBANISA official who handles grains trading, announced in October that the company is providing 10,000 small famers with concessional financing through ALBA-CARUNA (ALBA's microfinance institution) for the planting of black beans for export to Venezuela. A grains trader recently told Emboffs that ALBA-CARUNA financing for the most recent agricultural cycle was contingent on an agreement to sell the harvest to Venezuela. Other farmers have explained that the financing is not in fact offered to farmers directly, but instead to the managers of cooperatives with close ties to CPCs.

17. (SBU) In response to CPC efforts such as this one-intended to direct the benefits of trade with Venezuela to Ortega loyalists-the Nicaraguan Federation of Business Associations (COSEP) has asked the government to initiate trade negotiations with Venezuela. COSEP President Jose Adan Aguirre recently told Emboff that the government has rebuffed this overture to "level the playing field."

18. (SBU) Meanwhile, famers in Matagalpa, an area fertile for bean cultivation, have told Emboffs that the government has offered to provide them clean title for their properties so long as they agree to grow crops for export to Venezuela. Recent press reports claim that, in an effort to coerce black bean sales to Venezuela, the Ministry of Agriculture has expedited sanitary permits for crops headed to Venezuela while delaying them for other destinations. Dairy and grains processing are currently handled by private companies, but on October 23, Paniagua announced that ALBANISA would build two dairy plants and a grain processing plant.

19. (SBU) Comment: While exports have dramatically increased, there are clearly more than market forces at work here. To date, it appears that farmers are receiving better-than-market prices for their sales to Venezuela, but offers of concessional financing and property titles, as well as CPC vetting, suggest that government incentives and partisan politics have played a role in the increase of Nicaraguan exports to Venezuela. While the government goes to extraordinary lengths to make sure that "fair trade" with Venezuela is a success, Nicaragua's unprecedented access to the U.S. market through CAFTA-DR is an afterthought at best.

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